

## Message Text

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17

ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 L-03 H-02 NSC-05

SS-15 STR-04 CEA-01 PA-01 PRS-01 IO-13 /109 W

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R 280900Z APR 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 8810

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL HONG KONG

USMISSION OECD PARIS

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: INTERNATIONALIZING THE YEN: COMMENTS BY MOF OFFICIAL

1. SUMMARY: SENIOR MOF OFFICIAL MASAO FUJIOKA (DIR GEN INTL FIN BUR) EXPLAINED MOF OBJECTIVES AND POLICIES WITH REGARD TO SO-CALLED INTERNATIONALIZATION OF THE YEN. HE SAID GOJ HAD NO "GRAND PLAN" SO THAT RECENT PRESS ARTICLES AND THE PHRASE ITSELF WERE INACCURATE. FOREIGN EXCHANGE CONTROLS HAVE BEEN LOOSENEED IN THE PAST YEAR AS THE BALANCE OF PAYMENTS STRENGTHENED. GOJ HAD ALSO RESPONDED TO REQUESTS FROM CERTAIN CENTRAL BANKS AND GOVTS TO ACQUIRE YEN ASSETS SUCH AS GOJ BONDS. IN ADDITION, MOF WAS SEEKING AN ALTERNATIVE TO DOLLAR EXPORT USUANCE FINANCING BY DEVELOPING YEN ACCEPTANCE MARKET WHICH WOULD ALSO ALLOW JAPANESE

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EXPORTERS TO CONTRACT IN YEN. END SUMMARY.

2. RECENT SPATE OF ARTICLES ON INTERNATIONALIZATION OF THE YEN WERE IN MANY WAYS INACCURATE. FUJIOKA TOLD FINATT MOF HAD NO GRAND PLAN TO PROMOTE AN INTERNATIONAL STATUS FOR THE YEN; IT WAS MERELY ACCOMMODATING CERTAIN MARKET DESIRES TO MOVE IN THAT DIRECTION WHAT IN FACT HAD HAPPENED WAS THAT MOF HAD FOUND IT OPPORTUNE TO LOOSEN CERTAIN FOREIGN EXCHANGE CONTROLS PREVIOUSLY LIMITING THE FLOW OF INTERNATIONAL CAPITAL IN AND OUT OF JAPAN. IN THE PAST, FOREIGNERS HAD CRITICIZED JAPANESE RESTRICTIONS ON INVESTMENT FLOWS. THERE WERE STILL LIMITS TO COMPLETE CAPITAL LIBERALIZATION, ESPECIALLY FOR THE BANKS, IN THE FORESEEABLE FUTURE.

3. THE EARLIEST STEP TAKEN, ACCORDING TO FUJIOKA, IN FREEING UP CAPITAL TRANSACTIONS WAS PERMISSION IN APR 72 TO ESTABLISH A DOLLAR CALL MONEY MARKET. THE PURPOSE WAS TO GIVE RESIDENT FOREIGN EXCHANGE BANKS A LOCAL OUTLET FOR EXCESS SHORT-TERM DOLLAR SUPPLIES AND DEMAND WITHOUT HAVING TO RESORT TO MARKETS IN LONDON OR NEW YORK (SEE 72 TOKYO 3323).

4. THE SECOND STEP WAS AUTHORIZATION FOR FOREIGNERS TO FLOAT YEN BONDS IN THE TOKYO MARKET. POLICY WAS RECENTLY LIBERALIZED TO PERMIT ONE Y10 BIL ISSUE EVERY TWO MONTHS COMPARED WITH ONE EVERY THREE MONTHS LAST YEAR (WHEN FINLAND AND NEW ZEALAND BORROWED). IN APRIL THERE WAS AN ADB ISSUE AND IN MAY AN ISSUE BY THE GOVT OF MEXICO WAS EXPECTED. ACCESS TO JAPAN'S CAPITAL MARKET HAD TO BE CONTROLLED, SAID FUJIOKA, BECAUSE IT WAS STILL UNDER-DEVELOPED AND THIS YEAR THE GOJ WAS PLACING HEAVY DEMANDS ON IT BECAUSE OF THE ENORMOUS BUDGET DEFICIT.

5. JAPANESE BANKS ARE SADDLED WITH VERY HEAVY FOREIGN CURRENCY DEBTS. GROSS SHORT-TERM BORROWING ABROAD AMOUNTS TO \$25 BIL AND HAS TO BE CONTINUOUSLY ROLLED OVER WHILE THE BANKS' NET POSITION IS IN DEFICIT BY \$14 BIL. IN THESE CIRCUMSTANCES, SAID FUJIOKA, THE BANKS CANNOT BE ALLOWED TO MAKE NEW MEDIUM-TERM FOREIGN CURRENCY LOANS, EXCEPT TO THE EXTENT THAT THEY CAN BE FINANCED BY ISSUES OF MID-TERM CD'S ABROAD. ON THE OTHER HAND, BANKS HAVE NO PROBLEM IN SOURCING YEN SO THAT THE SAME PROBLEM DOES LIMITED OFFICIAL USE

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NOT EXIST FOR YEN LOANS TO FOREIGNERS. FOR THIS REASON PERMISSION WAS RECENTLY GIVEN TO MAKE A \$15 BIL YEN LOAN TO THE PHILIPPINE GOVT (TOKYO 5510). MOF WAS PROCEEDING CAUTIOUSLY, APPROVING ADDITIONAL BORROWINGS TO THE EXTENT THE BALANCE OF PAYMENTS PERMITS. AT PRESENT THERE IS NO SET SCHEDULE AS FOR BOND ISSUES, BUT FUJIOKA ANTICIPATED THERE WOULD BE FURTHER APPROVALS DURING THE YEAR BUT ON A CASE-BY-CASE BASIS.

6. FUJIOKA SAW AN UNDESIRABLE RISK OF CONTINUING TO FINANCE ALL OF JAPAN'S EXPORTS BY SHORT-TERM OVERSEAS BORROWING WHICH COMPOUNDS THE PROBLEMS ALREADY FACED BY THE BANKS. FUJIOKA RECALLED THE VERY HIGH INTEREST RATES JAPANESE BANKS WERE OBLIGED TO PAY FOLLOWING THE FAILURE OF THE HERSTATT BANK IN MID-1973. HE WAS ANXIOUS THEREFORE FOR AN ALTERNATIVE YEN EXPORT FINANCING SYSTEM BY DEVELOPING A YEN ACCEPTANCE MARKET. HE CONCEDED THAT JAPANESE SHORT-TERM RATES ARE INTERNATIONALLY UNCOMPETITIVE WHICH HAS BEEN A SERIOUS IMPEDIMENT TO DEVELOPING THIS FACILITY. IN ADDITION, BOJ IS INSISTING THAT NO "SPECIAL SYSTEM" BE ESTABLISHED FOR LOCAL EXPORT FINANCING (AS HAD BEEN THE CASE WHEN BOJ HAD MAINTAINED A PREFERENTIAL EXPORT DISCOUNT RATE). AS YET FUJIOKA SAW NO THREAT TO DOMESTIC MONETARY MANAGEMENT OF ALLOWING INCREASED INFLOWS AND OUTFLOWS OF INTERNATIONAL FUNDS. HE DID CONCEDE THAT AT PRESENT THERE WAS A TAX INCENTIVE FOR JAPANESE TO ISSUE FOREIGN CURRENCY BONDS ABROAD (EXEMPT FROM THE JAPANESE WITHHOLDING TAX ON INTEREST) IN COMPARISON WITH SALE TO FOREIGNERS OF DOMESTICALLY ISSUED YEN BONDS (AGAINST WHICH THE WITHHOLDING TAX ON INTEREST APPLIES). HOWEVER, HE SAW NO URGENT NEED TO CORRECT THIS DISTORTION.

7. FUJIOKA COMMENTED AS FOLLOWS REGARDING REPORTS THAT CENTRAL BANKS WERE PURCHASING GOJ BONDS THROUGH THE BANK OF JAPAN. VARIOUS CENTRAL BANKS HAD APPROACHED JAPAN AND IN GENERAL MOF HAD BEEN DISPOSED TO MEET THOSE REQUESTS. MOF CONSIDERS THESE PURCHASES AS LONG-TERM INVESTMENTS. IT IS MOF POLICY THAT SUCH PURCHASES BE MADE "FROM THE MARKET." HOWEVER, SINCE THE GOVT BOND MARKET IS VERY THIN, BOJ WAS "FACILITATING" THE EXECUTION OF BUY ORDERS (APPARENTLY THERE IS A SHORTAGE OF OUTSTANDING BONDS WITH LIMITED OFFICIAL USE

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MATURITIES OF 3-5 YEARS BECAUSE IN THE PAST GOJ ISSUES HAVE BEEN SMALL). FUJIOKA WAS FIRM IN STATING THAT GOJ WAS NOT SEEKING TO SELL BONDS TO FOREIGN CENTRAL BANKS BUT WAS OBLIGED TO SOME EXTENT TO RESPOND TO THEIR "REQUESTS" TO HOLD YEN ASSETS. ASKED WHETHER ANY COUNTRY COULD MAKE SUCH PURCHASES, SAY EVEN AN INDUSTRIAL OECD COUNTRY, FUJIOKA SAID THERE WOULD BE NO PROBLEM "IN PRINCIPLE."

8. COMMENT: EMBASSY CONCURS THAT GOJ HAS NO "GRAND PLAN" BUT HAS TAKEN A SERIES OF PRAGMATIC STEPS IN LIBERALIZING CREDIT ARRANGEMENTS IN JAPAN BY FOREIGNERS AND ABROAD BY JAPANESE. IN THIS WAY JAPAN HAS RESPONDED TO FOREIGN REQUESTS ALTHOUGH PRIMARILY TO THOSE WITH STRONG CREDIT RATINGS. IN THE PROCESS THE YEN WILL BE ALLOWED TO ACQUIRE SOME INTERNATIONAL STATUS. HERETOFORE THIS WAS NOT WELCOMED BY

MOF BECAUSE OF UNKNOWN RISKS THAT MIGHT BE INVOLVED.  
APPARENTLY MOF NOW PERCEIVES CERTAIN OFFSETTING ADVANTAGES.  
THEREFORE, PRESS IS CORRECT IN ASSERTING THAT THERE HAS  
BEEN A SIGNIFICANT GOJ POLICY CHANGE.  
HODGSON

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